

Stock Update

Near term challenges remain; Maintain Hold

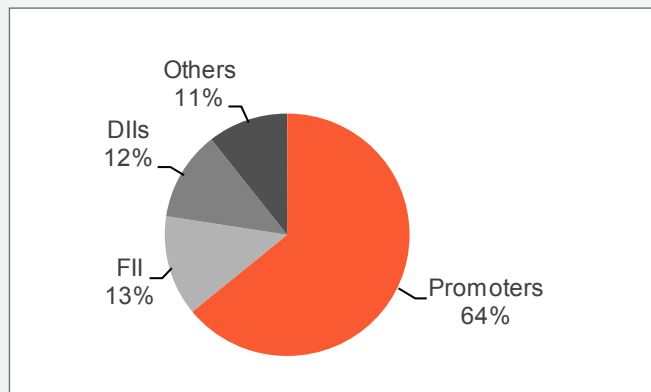
V-Guard Industries

Reco: Hold | CMP: Rs224

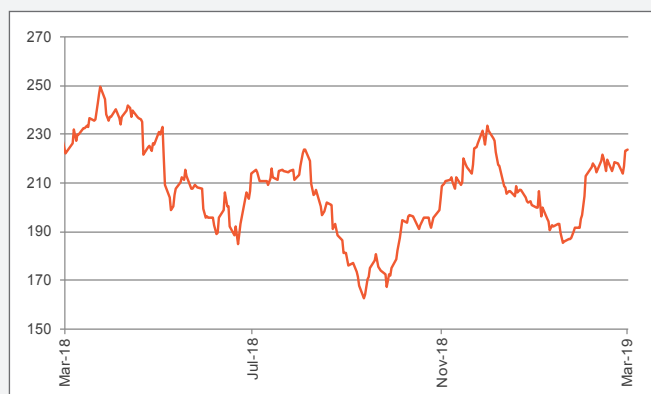
Company details

Price target:	Rs250
Market cap:	Rs9,559 cr
52-week high/low:	Rs255/159
NSE volume: (No of shares)	8.3 lakh
BSE code:	532953
NSE code:	VGUARD
Sharekhan code:	VGUARD
Free float: (No of shares)	15.3 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.5	-4.4	25.2	-0.7
Relative to Sensex	6.7	-10.4	18.7	-14.7

Key points

- ♦ **Gradual pickup in demand but revenue growth to fall short of initial guidance:** V-Guard Industries (V-Guard) is expected to fall short of its revenue guidance for FY2019 due to slower than expected demand recovery in the Southern market dominantly Kerala. Replacement demand pick-up down South is still slow and has not picked up as expected in some of its core segments such as wires and cables. Spending intensity is still subdued and replacement demand will take some time. Some green shoots are visible for the company as the summer has set in South (major market being Kerala and Karnataka) and it is already witnessing a gradual demand uptick in some of the products such as fans and voltage stabilisers. Some sales recovery is expected in the non-south market as the company is witnessing good growth from these markets. Further, the company's continued focus on non-south market (36% revenue contribution) would accelerate growth in sales in some of its products such as fans, air coolers and voltage stabilisers as the days turn hotter. Going ahead, we expect revenue contribution from the non-south region to go up gradually to 50% in couple of years with its existing as well as extended new product offerings (air coolers, kitchen appliances and switchgears).
- ♦ **Operating margins to remain under pressure despite price hike taken:** Operating margins to remain under pressure and fall short of its initial 10% guidance due to lower operating leverage and further price hike needs to be taken to ease the margin pressure. Although V-Guard in February has taken price hikes up to 2% in voltage stabilisers, fans and motor pumps (contributes around 40% of the revenues) will ease some of the margins pressure for the company. Earlier the company was unable to take a price hike due to higher raw material prices coupled with rupee depreciation. This negatively impacted the gross margins of the company. As the raw material prices have been stable after Q3FY19 and favorable currency movement the company has been able to take price hike and expect the demand to be steady with initial response being good in the last two-three weeks in Southern markets for most of its summer products and expected to ease off some margin pressure going forward.

- ♦ **Extended distribution network coupled with thrust on innovation, branding and promotion to tap potential market share:** The company currently has ~25000 retail touch points and envisages adding 3,000-5,000 retailers across the country every year over the next five years with higher additions in the non-south region. Currently, two-thirds of the company's distribution network has been established in the non-south region having significant potential for meaningfully adding to revenue growth and operating leverage to expand to existing investments. The company's sustained efforts on innovation, R&D and product development will continue to be made to roll out differentiated products, keeping competition in mind. Cost optimisation (through methods

such as lean manufacturing and efficient raw-material utilisation) is an endeavor being made across its 10 plants to improve efficiency and margins.

- ♦ **Maintain Hold with a revised PT of Rs. 250:** Factoring near-term challenges with respect to a competitive environment and slower than expected demand recovery in the Southern market dominantly Kerala, considering 9MFY19 performance. We believe that the addition of new capacity and dealers across India coupled with the launch of premium products would help in revenue, earnings CAGR of 15%, 16%, respectively, for FY2018-2021E. We reiterate our Hold rating on the stock with a revised PT of Rs. 250.

Valuation

Particulars	FY18	FY19E	FY20E	FY21E
Net sales	2,312	2,590	2,986	3,512
% Y-o-Y growth	10.8	12.1	15.3	17.6
Operating margin (%)	9.6	8.2	9.4	10.0
Net profit	169	155	210	266
Adjusted EPS	4.0	3.6	4.9	6.3
% Y-o-Y growth	16.5	(8.3)	35.2	27.1
PER	56.9	62.1	45.9	36.1
P/B	12.8	10.9	9.1	7.6
EV/EBIDTA	40.7	41.5	31.2	24.7
RoCE (%)	31.0	25.3	28.9	30.6
RoNW (%)	24.4	19.0	21.7	22.9
RoIC(%)	36.8	29.6	34.3	36.6
Div Yield (%)	0.4	0.3	0.4	0.5

Rs cr

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